

ECONOMICS MONTHLY

Volume 1 Number 10

October, 1986

MONTHLY STATISTICAL HIGHLIGHTS

Imports of softwood lumber from Canada fell 20.4 percent in August compared to July.

During the first eight months of 1986, exports of softwood lumber to Spain were up 71 percent, the highest increase to any customer country. Exports to the United Kingdom were a close second, with a 70 percent jump.

Shipments of structural panels are running 12.7 percent ahead of last year.

Consumption of hardwood lumber in the United States declined during the first eight months of 1986, down nearly 5 percent from last year.

Softwood lumber consumption through August was up 8.2 percent.

CANADIAN SOFTWOOD LUMBER DECISION WEIGHS IN

A little over a year ago, a group of U.S. producers banded together to lobby for government action on what they viewed as the major problem for U.S. producers -- growing imports of softwood lumber from Canada. After a well-organized legal attack by the Coalition for Fair Lumber Imports, the industry group that filed the petition, the Department of Commerce issued a preliminary countervailing duty decision on October 16. The Department imposed a countervailing duty of 15 percent, ruling that government policies in Canada provide a subsidy to its lumber industry. Administrative pricing practices for timber owned by the Provinces was the major source of subsidy found.

A final decision by the Department of Commerce on this case is expected on December 30. In the meantime, producers in Canada must post bonds or cash deposits with U.S. Customs before lumber can be shipped across the border. In accordance with U.S. trade law, Commerce will review the facts between now and the end of the year to see if the level of the duty should be raised, lowered or eliminated. They will send investigators to Canada and receive submissions of further evidence from both sides in the dispute.

The level of the duty could translate into about \$400 million for the U.S. Treasury over the course of

a year, assuming that imports continue to run at their current volume of 15 billion board feet. Less certain is how the duty will actually affect the volume of imports, and how it will impact U.S. producers and the overall U.S. lumber market. Classical economic theory suggests that the demand for imports in the U.S. should shift downward in response to an increased price. All other things being equal, the extent of that shift depends upon factors such as: the ability of the exporting producer to absorb lower profit margins, the supply response of domestic producers, and the impact price changes have on market demand. None of these factors is easily predictable given the dynamic nature of the lumber markets in North America.

All other things are never equal, and price swings in the softwood lumber market are not uncommon. During this year, the peak of \$240 in the Random Lengths Composite price for softwood lumber occurred in mid-April, the low of \$182 was reported in February, a difference of 32 percent. Moreover, imports of softwood lumber fell by 20 percent between July and August, apparently because of strikes in Canada. So it's too early to discern the full impact of the countervailing duty from other influences on the supply/demand for lumber. However, two weeks after the decision, the Random Lengths Composite Price was up about 5 percent.



THE NFPA FORECAST -- GUARDED OPTIMISM FOR 1987

This year will mark another record year for wood products consumption (Table 1). Consumption of softwood lumber and structural panels will reach a record level for the third year in a row. This can be attributed to increases in all major market segments from housing to exports. Lower interest rates, more favorable exchange rates with European and Asian currencies, and higher real disposable income have been the drivers for activity in the wood products industry.

That's not to say that the economy in general has been growing as many economists would have hoped or expected. The growth in the GNP this year will be about 2.5 percent. The two segments of the economy responsible for the modest growth have been housing and consumer expenditures, particularly for automobiles. On the down side, the economy has been adversely affected by the double deficit -- the budgetary deficit and the trade deficit. The increase in the GNP expected by many economists during the second half of this year never materialized.

Tax Reform

Transition rules will go into effect next year for the new tax reform legislation enacted into law this month. There is some concern that the tax bill will slow economic growth in the near term because of the increased tax liability placed on corporations. The legislation is designed to shift about \$20 billion of tax liability to corporations next year, thus making less money available in the corporate sector for capital investment, and in many cases, hampering cash flow.

The new system encourages consumption through reductions in

individual tax liabilities. Six million lower income people will be removed from the tax rolls altogether, and higher income taxpayers will experience some reductions in taxes. The hope is that the increase in consumer demand caused by lower taxes will displace the negative impacts of the bill on corporate investment. The problem is that increased consumption doesn't necessarily mean increased purchases of American-made products; much of the economic benefits of lower taxes may fall to foreign suppliers.

Elements of Wood Products Demand

The major market for wood products -- new housing -- is benefitting from a combination of factors including demographics, lower interest rates, and deregulation of financial institutions. And housing should continue to be strong for the next several years due to these factors. Moreover, the changes in the tax code make housing a preferential investment.

The rapid pace of housing construction slowed in the third quarter this year, at least partly as a result of the high inventory of unsold homes (7.3 month supply). Nevertheless, housing starts should finish the year at close to 1.87 million units, 11 percent ahead of last year.

It is doubtful that starts in 1987 will be as strong as they have been this year, so NFPA's forecast for 1987 is for a housing start level of 1.7 million. The decline will be mainly in the multi-family category. States such as Texas and Louisiana, with energy dependent economies, will lag behind the rest of the country in terms of housing starts; currently, they have record backlogs of unsold homes.

Another major booming market for wood products is additions and

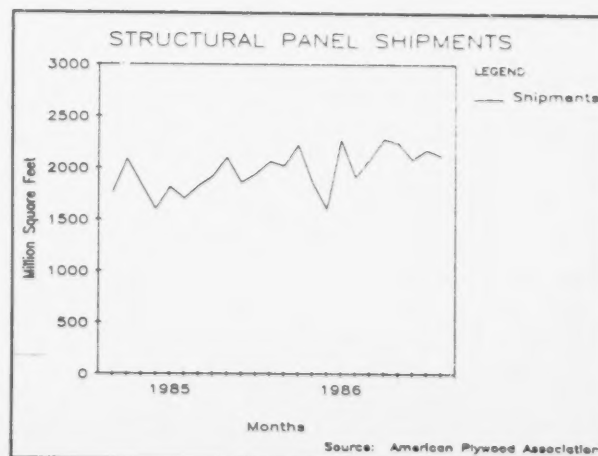
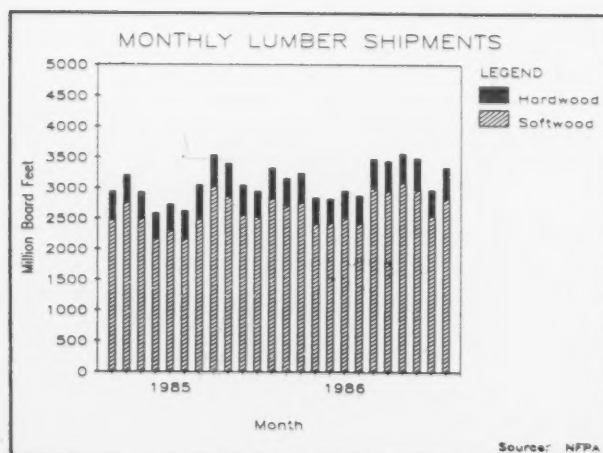
ECONOMICS MONTHLY

MONTHLY STATISTICAL SUPPLEMENT

Issued: October 1986

ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION

	AUGUST 1986			AUGUST 31, 1986	
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks
(Million Board Feet)					
SOFTWOOD LUMBER					
Southern Pine Region	919	891	790	634	1,895
Douglas Fir Region	748	696	754	580	857
Western Pine Region	972	943	986	510	1,302
California Redwood Region	172	174	164	91	369
Other Softwoods	144	138	138	252	299
TOTAL SOFTWOODS	2,955	2,842	2,832	2,067	4,722
% Change - July 1986	5.7%	0.5%	-3.2%	-0.5%	2.5%
% Change - August 1985	4.3%	0.0%	0.6%	4.9%	0.8%
HARDWOOD LUMBER					
Southern Hardwood Region	227	234	228	264	870
Appalachian Hardwood Reg.	58	60	61	*	*
Other Hardwoods	201	208	205	196	892
TOTAL HARDWOODS	486	502	494	460	1,762
% Change - July 1986	7.8%	13.3%	13.3%	-1.6%	-0.9%
% Change - August 1985	-8.0%	-2.3%	-3.9%	9.5%	4.0%
TOTAL LUMBER	3,441	3,344	3,326	2,527	6,484
% Change - July 1986	6.0%	2.2%	-1.1%	-0.7%	1.5%
% Change - August 1985	2.3%	-0.3%	-0.1%	5.7%	1.6%
* Included in Other Hardwoods					
FLOORING					
(Thousand Feet)					
Oak Flooring (Bd. Ft.)	NA	12,584	NA	9,192	4,316
Maple Flooring (Sq. Ft.)	983	1,085	968	3,924	1,755
STRUCTURAL PANELS (Sq. Ft.)	2,119,499	2,119,435	2,178,773	838,743	367,000
% Change - July 1986	-2.2%	-2.6%	2.5%	7.6%	0.0%
% Change - August 1985	4.0%	2.7%	14.3%	-3.4%	15.8%



YEAR-TO-DATE INDICATORS

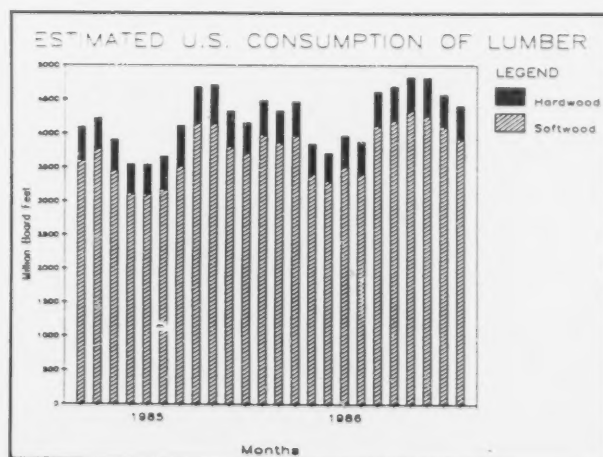
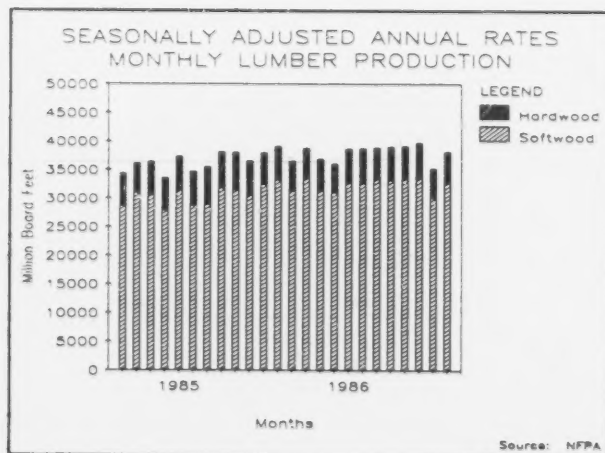
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	8 mos. '86	8 mos. '85	8 mos. '86	8 mos. '85	8 mos. '86	8 mos. '85
(Million Board Feet)						
TOTAL LUMBER	26,801	6.9%	26,801	7.9%	26,953	7.9%
TOTAL SOFTWOOD	22,819	9.3%	22,862	10.0%	22,947	9.9%
TOTAL HARDWOOD	3,982	-5.2%	3,939	-3.1%	4,006	-2.2%
(Million Square Feet)						
STRUCTURAL PANELS	17,236	12.3%	17,185	12.7%	17,094	12.6%

SEASONALLY ADJUSTED ANNUAL RATES

LUMBER REGION	PRODUCTION			SHIPMENTS		
	August '86	% Change From-- July '86	August '85	August '86	% Change From-- July '86	August '85
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	10,453	-13.8%	-4.5%	10,503	-15.5%	-0.7%
Douglas Fir	8,610	20.0%	7.9%	7,844	6.7%	-3.5%
Western Pine	10,200	-1.6%	-6.7%	10,050	-1.4%	-5.2%
Calif. Redwood	1,888	-5.3%	-1.5%	1,970	6.0%	2.7%
Other Softwoods	1,578	-2.3%	-0.9%	1,530	-6.2%	-3.4%
TOTAL SOFTWOODS	32,729	-1.7%	-1.9%	31,896	-4.7%	-2.8%
TOTAL HARDWOODS	5,482	3.3%	-10.0%	5,747	3.8%	-3.9%
TOTAL LUMBER	38,212	-1.0%	-3.2%	37,643	-3.5%	-3.0%

DOMESTIC LUMBER CONSUMPTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	% Change From--		Latest Period Available	% Change From
	August '86	July '86	August '85	8 mos. '86	8 mos. '85
(Million Board Feet)					
Total Consumption	4,408	-5.9%	-1.7%	35,931	6.6%
Softwood Consumption	3,931	-7.6%	-1.5%	32,075	8.2%
Hardwood Consumption	477	10.6%	-3.4%	3,856	-4.8%

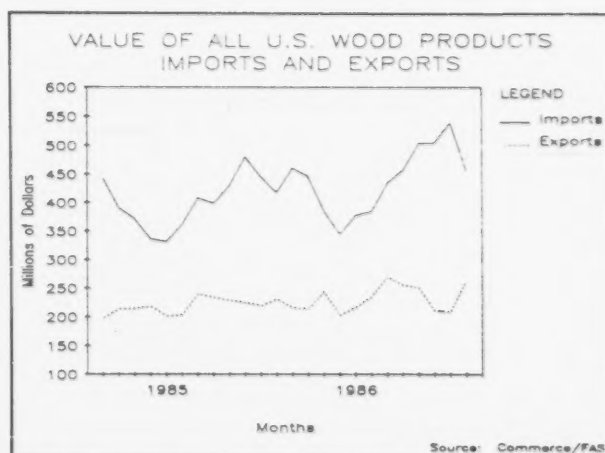
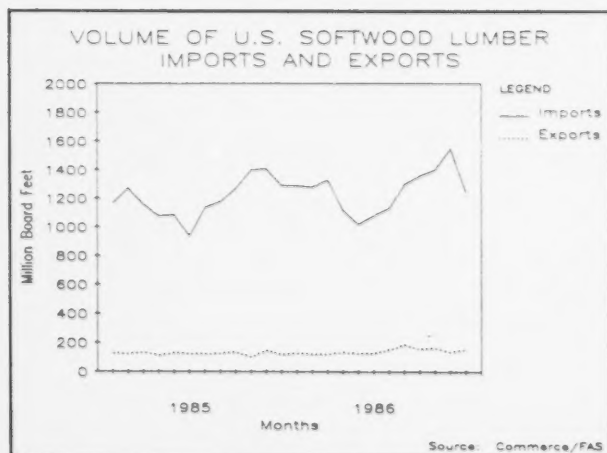


INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE			
		August '86	8 mo. 1986	% Change From July '86	% Change From 8 mo. 1985	Aug. '86	8 mo. 1986	% Change From July '86	% Change From 8 mo. 1985
EXPORTS									
SOFTWOOD LUMBER	MMBF	156.4	1,223.3	13.2%	21.3%	53,617	408,455	18.3%	23.0%
To Canada	MMBF	37.0	245.6	24.1%	21.9%	8,980	60,548	22.7%	19.3%
SOFTWOOD LOGS	MMBF	328.1	2,226.3	46.5%	-11.1%	109,466	722,861	48.8%	-8.4%
SOFTWOOD PLYWOOD	MMSF 3/8"	29.0	361.6	-15.7%	79.5%	6,274	78,121	-17.0%	62.7%
HARDWOOD LUMBER	MMBF	49.1	322.4	27.3%	22.1%	33,908	221,829	29.4%	34.8%
HARDWOOD LOGS	MMBF	4.5	74.8	-10.1%	-9.7%	3,777	68,725	-16.4%	4.0%
HARDWOOD VENEER	MMSFsurf	65.2	640.3	-41.3%	28.0%	6,296	50,641	-5.7%	26.7%
PARTICLEBOARD	MMSF 3/4"	12.3	105.6	-0.9%	48.0%	2,687	21,157	6.0%	48.3%
ALL OTHER		NA	NA	NA	NA	45,867	331,044	12.0%	3.6%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	262,852	1,910,628	26.0%	7.0%
IMPORTS									
SOFTWOOD LUMBER	MMBF	1,245.3	10,436.5	-20.4%	5.6%	266,543	2,180,951	-20.3%	11.6%
From Canada	MMBF	1,233.6	10,346.6	-20.4%	5.2%	263,222	2,159,962	-20.4%	11.1%
SOFTWOOD LOGS	MMBF	11.8	37.5	110.1%	-3.4%	1,083	4,034	56.5%	-61.7%
SOFTWOOD PLYWOOD	MMSF 3/8"	10.7	90.1	6.5%	65.9%	2,835	23,582	4.0%	77.4%
HARDWOOD LUMBER	MMBF	25.1	237.1	-8.4%	-6.9%	12,550	112,980	-9.4%	-10.6%
HARDWOOD LOGS	MMBF	5.2	19.0	79.0%	5.5%	448	2,872	-15.0%	14.0%
HARDWOOD VENEER	MMSFsurf	116.7	1,068.1	-15.8%	13.8%	7,976	75,224	-19.4%	10.3%
HARDWOOD PLYWOOD	MMSFsurf	277.2	2,607.6	-13.1%	12.0%	38,332	325,116	-2.5%	11.0%
HARDBOARD	MMSF 1/8"	74.7	618.6	2.6%	29.1%	4,819	39,301	-3.1%	14.9%
PARTICLEBOARD	MSF 3/4"	72.5	713.5	-31.4%	8.5%	10,504	96,472	-28.8%	8.7%
ALL OTHER		NA	NA	NA	NA	111,352	793,212	-5.7%	16.9%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	456,662	3,656,206	-15.3%	11.7%

Note: Volume total is not possible because the products are in different units of measure.

Note: Particleboard imports include OSB/Waferboard.



VALUE OF NEW CONSTRUCTION

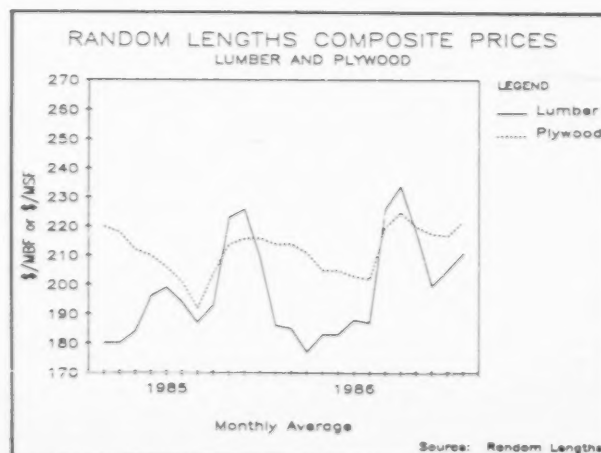
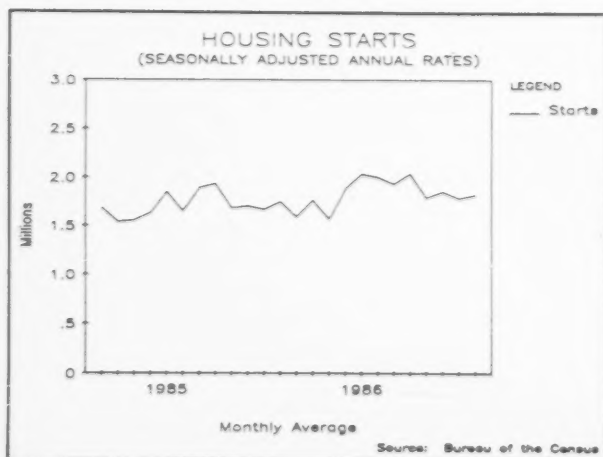
	CURRENT			YEAR-TO-DATE	
	Latest Month Available	---% Change From---		Latest Period Available	% Change From
	Aug. '86	July '86	Aug. '85	8 mo. '86	8 mo. '85
	(Billions of Dollars)				
VALUE OF ALL NEW CONSTRUCTION PUT-IN-PLACE	36.3	4.6%	12.6%	241.7	9.5%
Private	28.6	4.0%	12.0%	196.5	8.5%
Residential	17.1	4.9%	22.6%	110.6	14.7%
Nonresidential & Other	11.5	2.7%	0.0%	85.9	1.3%
Public	7.7	6.9%	14.8%	45.1	14.0%

HOUSING STARTS

	Aug. '86	July '86	Aug. '85	8 mo. '86	8 mo. '85
	(Thousands of Units)				
NEW HOUSING UNITS STARTED					
Total Private & Public	166.2	-3.5%	3.2%	1,270.8	7.8%
New Private Starts	166.2	-3.4%	3.4%	1,270.4	8.0%
Seas. Adj. Annual Rate	1818	2.0%	4.5%		
One-Family Housing Starts	110.8	-2.4%	11.4%	827.8	12.1%
Proportion of Total	66.7%			65.1%	
SHIPMENTS OF MOBILE HOMES	21,600	6.4%	-22.0%	166,800	-13.8%

INDUSTRY EMPLOYMENT

	Aug. '86	July '86	Aug. '85
	---% Change From---		
	Aug. '86	July '86	Aug. '85
	(Thousands of Employees)		
TOTAL EMPLOYMENT (Seasonally Adj.)			
All Industries	100,261	0.2%	2.3%
All Manufacturing Industries	19,122	0.0%	-1.2%
Lumber and Wood Products	729	0.7%	4.1%
Furniture and Fixtures	499	0.2%	0.0%



repairs. The same combination of factors contributing to new housing has spurred the remodeling market as well. Approximately 27 percent of U.S. lumber demand is generated through additions and repairs. We expect this market to continue to grow. The availability of treated lumber products and the growth in Do-It-Yourself (DIY) products and distribution is evidence of this trend.

Finally, exports of U.S. wood products are projected to grow next year, for the second year in a row. Aggressive industry trade and marketing programs are bearing fruit in Asia and Europe. Exports of wood products are up dramatically this year, having benefited from the decline of the U.S. dollar. The total value of wood products exports should total \$2.9 billion in 1986, up 8 percent from last year. Softwood lumber exports are up 22 percent in volume; softwood plywood exports are up 75 percent. Japan and European countries accounted for some of the biggest increases in U.S. softwood lumber purchases. Exports to Spain, England, and West Germany accounted for the highest increases over last year.

In contrast to the finished goods, exports of softwood logs actually fell during the first eight months of the year, down 11 percent. This is largely attributable to lower softwood log exports to China due to a shortage of foreign exchange, although Japan and other Pacific Rim countries have also lowered their purchases of logs.

The outlook for 1987 assumes a continuing benefit to U.S. producers from favorable exchange rates. This, coupled with continued growth in the major customers' economies, should translate to further increases for U.S. exports. We expect exports next year to increase by at least 5

THE 1987 FORECAST

	1985	1986 (Est.)	1987 Forecast
Single Family Housing Starts (000)	1,072.4	1,200.0	1,100.0
Multi-Family Housing Starts (000)	672.6	670.0	600.0
Mobile Home Shipments (000)	283.5	250.0	255.0
Other Construction (Billion 1977 \$)	136.0	135.9	120.0
Industrial Production Index (1977 = 100)	123.8	125.0	128.8
Furniture & Fixtures Index (1977 = 100)	139.7	146.0	150.0

	Softwood Lumber (Bil BF)	Hardwood Lumber (Bil BF)	Struct. Panels (Bil SF)	Particle- board & MDF (Bil SF)
1985 U.S. CONSUMPTION	44.2	5.8	22.6	4.0
- Imports	14.6	0.3	-	0.6
+ Exports	1.6	0.5	0.4	0.1
= SHIPMENTS	31.2	6.0	23.0	3.5
+/- Inventory Change	0.1	-	0.1	(0.2)
= PRODUCTION	31.3	6.0	23.1	3.3
1986 U.S. CONSUMPTION (Est.)	46.9	5.7	25.2	3.8
- Imports	15.2	0.3	-	0.5
+ Exports	1.8	0.5	0.6	0.2
= SHIPMENTS	33.5	5.9	25.8	3.4
+/- Inventory Change	(0.1)	0.1	-	-
= PRODUCTION	33.4	6.0	25.8	3.4
1987 FORECAST =====				
U.S. CONSUMPTION	44.5	5.6	22.4	4.0
- Imports	14.2	0.3	-	0.5
+ Exports	2.0	0.4	0.7	0.3
= SHIPMENTS	32.3	5.7	23.1	3.8
+/- Inventory Change	(0.1)	-	-	-
= PRODUCTION	32.2	5.7	23.1	3.8

Table 1:

percent, barring any major changes in basic economic assumptions. But this trend will not be automatic or easy, since world competition is fierce.

The Bottom Line

The NFPA forecast for softwood lumber consumption in 1987 of 44.5 billion board feet is heavily predicated on the housing assumption. Less certain, but included in the forecast, is a 5 percent overall reduction in Canadian imports. Performance (earnings) of wood products companies should be enhanced in the coming year as a result, even though production will probably decline modestly. Other factors

influencing the industry during the upcoming year include: the impacts of tax reform, wood supply, and favorable export opportunities.

CORRECTION

The state by state production table included in the August issue of The Monthly contained some errors. A corrected table follows.

U.S. LUMBER PRODUCTION BY STATE 1983 - 1985										
	1985 RANK	TOTAL LUMBER			SOFTWOODS			HARDWOODS		
		1985	1984	1983	1985	1984	1983	1985	1984	1983
TOTAL U.S.		37,352	37,436	35,370	31,321	31,174	29,726	6,031	6,262	5,644
Oregon	1	7,252	7,243	6,632	7,211	7,202	6,579	41	41	53
California	2	4,183	3,906	3,600	4,168	3,891	3,574	15	15	26
Washington	3	3,563	3,841	3,951	3,419	3,697	3,821	144	144	130
Georgia	4	1,987	2,072	1,996	1,822	1,900	1,769	165	172	227
Alabama	5	1,873	1,772	1,551	1,539	1,439	1,308	334	333	243
Idaho	6	1,676	1,687	1,660	1,676	1,686	1,657	N	1	3
Mississippi	7	1,659	1,655	1,598	1,311	1,317	1,287	348	338	311
North Carolina	8	1,467	1,389	1,491	1,101	1,006	1,125	366	383	366
Montana	9	1,445	1,387	1,316	1,445	1,387	1,316	N	N	N
Arkansas	10	1,428	1,453	1,368	1,192	1,248	1,139	236	205	229
South Carolina	11	1,219	1,212	1,137	1,045	1,020	956	174	192	181
Texas	12	1,038	1,033	796	908	921	732	130	112	64
Maine	13	867	863	952	760	755	810	107	108	142
Virginia	14	842	852	803	424	431	445	418	421	358
Florida	15	665	656	576	638	624	553	27	32	23
Louisiana	16	554	604	691	439	450	562	115	154	129
Tennessee	17	482	507	342	129	120	104	353	387	238
Pennsylvania	18	428	437	415	16	15	16	412	422	399
Indiana	19	415	399	367	4	8	8	411	391	359
Wisconsin	20	398	385	312	80	83	79	318	302	233
Arizona	21	361	385	337	361	384	337	N	1	N
West Virginia	22	338	389	280	5	5	7	333	384	273
New York	23	302	346	364	76	93	88	226	253	276
Ohio	24	254	242	256	1	1	7	253	241	249
Kentucky	25	249	281	261	3	8	8	246	273	253
Michigan	26	219	246	234	33	26	24	186	220	210
Oklahoma	27	219	235	221	173	183	185	46	52	36
South Dakota	28	219	192	178	219	192	178	N	N	N
Missouri	29	199	217	164	14	13	14	185	204	150
New Mexico	30	185	172	191	185	172	191	N	N	N
Wyoming	31	182	174	171	182	173	171	N	1	N
New Hampshire	32	171	146	136	141	121	111	30	25	25
Minnesota	33	162	162	189	67	60	63	95	102	126
Del., Md.	34	137	149	113	68	63	59	69	86	54
Alaska, Hawaii	35	136	155	160	136	155	160	N	N	N
Colorado	36	129	134	123	129	134	123	N	N	N
Vermont	37	113	101	85	67	64	49	46	37	36
Massachusetts	38	78	95	98	44	45	48	34	50	50
Nevada, Utah	39	73	67	55	73	67	55	N	N	N
Illinois	40	64	73	57	N	N	N	64	73	57
Conn., Rhode Is	41	62	58	47	12	11	2	50	47	45
Iowa	42	31	27	47	1	N	1	30	27	46
Kansas, Neb.	43	20	26	21	1	1	4	19	25	17
New Jersey	44	7	11	10	1	1	N	6	10	10

N = Negligible.

Source: Dept. of Commerce; Western Wood Products Association; National Forest Products Association

N = Negligible.

Source: Dept. of Commerce; Western Wood Products Association; National Forest Products Association